

FY 2016 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)

I. PREFACE

A. Purpose and Content

USPS-FY16-31 contains the Fiscal Year 2016 Cost and Revenue Analysis (CRA) Model along with associated cost matrices and reports. Files are provided in Excel format.

B. Predecessor Document

USPS-FY15-31

C. Corresponding Non-Public Document

USPS-FY16-NP13, FY 2016 CRA Model (Model Files, Cost Matrices, and Reports)

D. Methodology

The CRA Model documented in USPS-FY16-31 essentially follows the methods applied in the Commission's FY 2015 Annual Compliance Determination (ACD). Although Order No. 3506 added inframarginal costs as a component of attributable costs going forward, the starting point for postal costing is and will remain the development of volume variable and product specific costs performed in the CRA Model. Moreover, the Commission said in Order No. 3506 that "marginal costs should remain as the Postal Service's basis for setting prices."¹ Thus, the CRA Model documented in USPS-FY16-31 follows the established methods for calculating volume variable and product specific costs by product as applied in the Commission's FY 2015 Annual Compliance Determination (ACD) with the following modifications:²

1. In the cost matrices and reports, costs that were previously defined as attributable are now classified as volume variable or product specific. Specifically, the row header has been renamed VOL VAR & PROD SPEC. Unless specifically identified in the column heading as either Product Specific' or 'PS', the product costs displayed are volume variable. This change was done in response to the Commission's directive in Docket No. RM2016-2, Order No. 3506.
2. The "C" Report now contains the applicable volume variable and product specific costs by product for each component. Components serve as the building blocks

¹ Docket No. RM2016-2, Order No. 3506 (September 9, 2016) at 61.

² Unit Volume Variable Cost has been proven to be equivalent to the marginal cost for a given product and can therefore be used for marginal analysis and pricing. (*Id.* at 9, Note 13.)

for the CRA and displaying volume variable and product specific costs at the component level enables customers to better evaluate and understand the sources of costs. Previously, the “C” Report only provided information for component groups.

3. The “D” Report adjustment that was done for part of FY 2015, impacting costs for Standard Mail Carrier Route, Standard Mail Flats, and Standard Mail High Density/Saturation Flats and Parcels, was not done in FY 2016. As noted in USPS-FY15-31, starting in June of 2015, the adjustment was no longer needed because of a classification change that required all pieces in FSS bundles to be part of the Standard Mail Flats product.³ Please refer to the preface of USPS-FY15-31 for more information.
4. Component 186 in Cost Segment (CS) 16.3.4.9 has been renamed ‘Incentive Service Fees’.
5. Component 134 in CS 13.2.1.2 has been renamed ‘Other and Product Specific Carfare’.
6. The product Standard Post has been renamed Retail Ground. Retail Ground retained the same CRA Class code of 145.

In addition to the changes listed above, the Postal Service also had to sort out the treatment of expenses from a new source and make two corrections. Both of these topics merit further explanation.

The new expenses came from the data plans associated with usage of the Mobile Delivery Devices (MDDs, i.e. scanners). Component 171 in CS 15.3.4, entitled MDD Communications was created to handle these expenses. In FY 2016, the accrued costs were \$6.9 million. These costs were incurred to cover data plans for the MDDs used daily by city and rural carriers. Each MDD has a data plan of 25 MB to cover package and other product scans, GPS data, texting between carrier and office, and data downloads to the MDD. The established treatment of equipment related costs is to receive the same variability and distribution as the labor costs that use the equipment. As such, in FY 2016, the variability and distribution for this expense is the combined city and rural carrier labor cost variability and distribution.

Two corrections were made in the treatment of costs in component 71, now entitled FERS Supplemental Liability (nee Annuitant Life Insurance). Both corrections revise procedures for prior year costs incorrectly treated in FY2015 and before as partially volume variable, whereas the established methodology is for these costs to be entirely treated as institutional. One, General Ledger account 51291, entitled Retired Annuitants Life Insurance, records the Postal Service’s share of supplemental life insurance premiums for employees retiring prior to age 65. In FY 2016, this account totaled \$14.1 million. This expense is associated with postal retirees. As such, it is a prior year expense and therefore, by the established methodology, is an institutional cost. Previously, however, these costs have been incorrectly treated as volume

³ See Docket No. R2015-4, Order No 2472, May 7, 2015.

variable as all labor in component 525 (all labor from cost segments 1-13, 16, 18, and 19). Thus, in FY2016, a correction was made to treat these costs as institutional in accordance with the established methodology.

Two, likewise, General Ledger account 56642 covers the FERS Supplemental Liability expense. This account totaled \$247.6 million in FY 2016. OPM assesses these charges if the cumulative value of past payments for FERS is deemed insufficient (or are less than the FERS actuarial liability). Essentially, these assessments stem from OPM's determination that payments made for previous fiscal years were too low and as such, these assessments or payments relate to expenses from prior years, rather than the current year.⁴ Therefore, by the established methodology, they should be treated as institutional costs. This expense first occurred in FY 2014 and it was incorrectly treated as volume variable as all labor costs in FY 2014 and FY 2015. Thus, in FY 2016, a correction was made to treat these costs as institutional in accordance with the established methodology.

⁴ The Postal Service's current year FERS costs, which for most FERS covered employees were 13.7 percent of base pay in FY2016, are included as a part of the labor costs in cost segments 1-13, 16, 18 and 19 and as such are treated as variable and have the same distribution as these labor costs in accordance with the established methodology. The Postal Service's FERS expenses are further discussed in its 10-K report at pages 22-26.

E. Inputs/Outputs

The tables below show the ACR folders that serve as inputs/outputs to/from USPS-FY16-31.

Input ACR Folders

Description	ACR Folder
Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations	USPS-FY16-5
Cost Segment 3 Cost Pools and Other Related Information	USPS-FY16-7
Equipment and Facility Related Costs	USPS-FY16-8
Special Cost Studies Workpapers – Special Services	USPS-FY16-28
FY 2016 Market Dominant NSA Materials	USPS-FY16-30
CRA “B” Workpapers	USPS-FY16-32
In-Office Cost System (IOCS) Documentation	USPS-FY16-37
Revenue, Pieces, and Weight Report	USPS-FY16-42

Output ACR Folders

Description	ACR Folder
FY 2016 Public Cost and Revenue Analysis (PCRA) Report	USPS-FY16-1
FY 2016 Public Cost Segments and Components Report	USPS-FY16-2
FY 2016 Non-Operation Specific Piggyback Factors	USPS-FY16-24
FY 2016 Competitive Products Fund Reporting Materials	USPS-FY16-39
FY 2016 Market Dominant Product Incremental Costs	USPS-FY16-43

II. ORGANIZATION

The contents of USPS-FY16-31 are organized in electronic folders as follows:

1. CRA Model Files

USPS-FY16-31\CRA Model Files\FY16Public.CRA.Model.xls	CRA run module
USPS-FY16-31\CRA Model Files\FY16Public.CRA.DIM.xls	CRA data input module
USPS-FY16-31\CRA Model Files\FY16Public.cntl.xls	CRA control table/data source

2. CRA Cost Files

USPS-FY16-31\CRA Cost Files\FY16Public.I.xls	Input matrix
USPS-FY16-31\CRA Cost Files\FY16Public.Mod1.xls	GDEI calcs and output matrix
USPS-FY16-31\CRA Cost Files\FY16Public.A.xls	"A" calcs and output matrix
USPS-FY16-31s\CRA Cost Files\FY16Public.F.xls	"F" calcs and output matrix
USPS-FY16-31\CRA Cost Files\FY16.PublicB.xls	"B" calcs and output matrix

3. CRA Report Files

USPS-FY16-31\CRA Report Files\FY16Public.IRpt.xls	Input report
USPS-FY16-31\CRA Report Files\FY16Public.ARpt.xls	"A" report (w/out PESSA costs)
USPS-FY16-31\CRA Report Files\FY16Public.FRpt.xls	Factor report
USPS-FY16-31\CRA Report Files\FY16Public.BRpt.xls	"B" report (PESSA detail)
USPS-FY16-31\CRA Report Files\FY16Public.CRpt.xls	Cost Segs and Comp report
USPS-FY16-31\CRA Report Files\FY16Public.DRpt.xls	Final adjustments